

AR81



CITADEL

Group of Funds

Citadel Diversified Investment Trust

Citadel S-1 Income Trust Fund

Citadel HYTES Fund

Citadel SMaRT Fund

MYDAS Fund

Citadel Multi-Sector Income Fund

Series S-1 Income Fund

Citadel Income & Growth Fund

Income & Equity Index Participation Fund

Energy Plus Income Trust

Citadel Stable S-1 Income Fund

Sustainable Production Energy Trust

Equal Weight Plus Fund

Series S-1 Income Fund

ANNUAL REPORT 2005

Series S-1 Income Fund

Series S-1 Income Fund (the “Fund” or “Series S-1”) is a closed-end investment trust which became listed on the Toronto Stock Exchange on June 12, 2003. The Fund has a termination date of December 31, 2009, or such earlier or later date as the unitholders may determine in accordance with the provisions of the Fund’s Declaration of Trust.

During 2005, Series S-1 paid monthly cash distributions of \$0.075 per unit for a total of \$0.90 per unit (2004 - \$0.90 per unit). For tax purposes, 2005 distributions were allocated as 33.1% other taxable income, 4.1% dividend income, 37.1% capital gains and 25.7% return of capital.

INVESTMENT HIGHLIGHTS:

	2005	2004	2003
Net Asset Value per Unit ⁽¹⁾	\$ 11.17	\$ 11.14	\$ 10.57
Market Price per Unit ⁽¹⁾	\$ 10.53	\$ 11.40	\$ 10.65
Trading Premium (Discount)	(5.7%)	2.3%	0.1%
Cash Distributions per Unit	\$ 0.90	\$ 0.90	\$ 0.375
Trailing Yield ⁽²⁾	8.5%	7.9%	n/a
Market Capitalization (\$ millions)	\$ 364.5	\$ 398.9	\$ 368.6

⁽¹⁾ Net asset value and market price per unit are based on year end values.

⁽²⁾ Trailing yield is based on the 12 months cash distributions declared in each year expressed as a percentage of year end market price.

Stock Symbol	SRC.un (TSX)
2005 High/Low	\$11.70 - \$8.55
2005 Cash Distributions	\$0.90 per unit
2005 Taxable % ⁽³⁾	54.4%
2005 Total Return ⁽⁴⁾	0.5%
2005 Management Expense Ratio	1.7%

⁽³⁾ Taxable percentage is based on all other taxable income, two-thirds of dividend income and one-half of capital gains expressed as a percentage of total distributions.

⁽⁴⁾ Total return is based upon the Fund’s change in market price plus the reinvestment of cash distributions in additional units of the Fund.

Management Report of Fund Performance

(April 6, 2006)

This annual report includes both the annual management report of fund performance, containing financial highlights, and the complete annual financial statements of Series S-1 Income Fund (the "Fund" or "Series S-1").

Unitholders may contact us by calling toll-free 1-877-261-9674 or by visiting our website at www.citadelfunds.com to request a copy of the Fund's proxy voting policies and procedures, proxy voting disclosure or quarterly portfolio disclosure.

INVESTMENT OBJECTIVES AND STRATEGIES

Series S-1's investment objectives are to provide investors with highly stable and sustainable monthly cash distributions derived from an actively managed and diversified portfolio of income producing investments consisting, in varying amounts, of publicly traded units of Canadian income funds and Canadian high yielding investment grade debt, while at all times maintaining an SR-1 stability rating as provided by Standard & Poor's.

RISK

There are a number of risks associated with an investment in Series S-1. The principal risks include, but are not limited to, market and income risk. Market risk is the exposure to market price changes in the securities held within the portfolio which have a direct effect on the net asset value of the Fund. Income risk arises from a number of factors related to the operational performance of the issuers of the securities held in the Fund's portfolio. These risks include the effects of fluctuations in commodity prices, foreign currency conversion rates and interest rates and include general business operation risks, any of which may affect the issuers' income and as a result reduce distributions to its unitholders and the value of its units. Diversification and active management by the Fund's investment manager of the securities held in the portfolio may reduce these risks. During 2005, the Fund increased its weighting in the oil & gas royalty trusts as commodity prices rose and reduced its holdings of a number of issuers that had become overvalued in the opinion of the Fund's investment manager.

RESULTS OF OPERATIONS

Series S-1's total net assets declined from \$389.9 million at December 31, 2004 to \$386.5 million at December 31, 2005 despite strong performance from its oil and gas royalty trusts. Offsetting the oil and gas valuation increases were significant unit repurchases and valuation declines in other sectors. As a result of the accretive effect of unit repurchases at discounts to net asset value at greater than 5%, the Fund's net asset value closed the year at \$11.17 per unit up from \$11.14 per unit at the end of 2004.

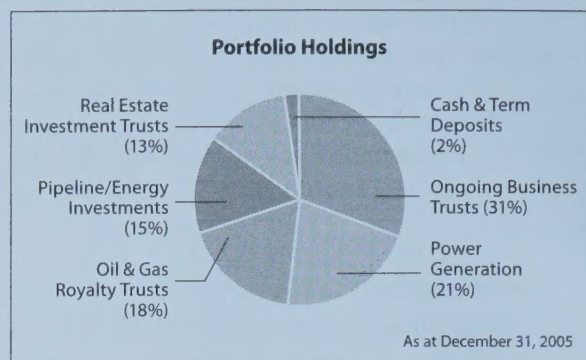
However, despite the steady net asset value, Series S-1's market price fell year over year, closing 2005 at \$10.53 per unit, down from \$11.40 per unit at the end of 2004. Series S-1's change in unit price plus monthly distributions produced a 0.5% total return for 2005, while the Fund generated a 9.1% total return on a net asset value basis. By comparison, the S&P/TSX Income Trust Index increased by 31.0%.

Total revenue for the year ended December 31, 2005 was \$33.3 million compared to \$32.5 million generated in 2004 as higher revenues were derived from the Fund's oil and gas trusts in 2005. Total expenses were \$6.7 million for 2005 compared to \$6.4 million for 2004 and included \$4.6 million for administrative and investment manager fees (2004 - \$4.3 million), \$1.6 million for trailer fees (\$1.5 million in 2004) and \$0.59 million for general and administration costs (2004 - \$0.66 million). Both administrative and investment manager fees and trailer fees are calculated in reference to the Fund's net asset value. As these fees are calculated throughout the year, the higher average net asset value in 2005 relative to 2004 contributed to the increased fees. Administrative and investment manager fees are payable in trust units of the Fund. After expenses, the Fund generated net investment income of \$26.6 million or \$0.76 per unit in 2005 compared to \$26.0 million or \$0.75 per unit in 2004.

During 2005 and 2004, Series S-1 paid monthly distributions of \$0.075 per unit for a total of \$31.4 million and \$31.3 million respectively or \$0.90 per unit.

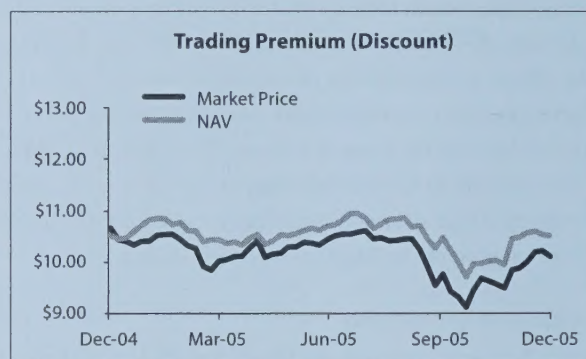
Throughout the year the Fund sold a number of investments, realizing capital gains of \$9.7 million (2004 - \$7.8 million). Offsetting these gains were unrealized losses on the Fund's portfolio of \$4.6 million for the year (2004 - unrealized gains of \$17.6 million). As a result, the Fund posted total results of operations of \$31.6 million or \$0.91 per unit compared to \$51.5 million or \$1.48 per unit in the prior year.

During the year, the Fund significantly reduced its cash balances to \$7.0 million at December 31, 2005 from \$32.3 million at the end of 2004. The cash was invested primarily in the oil and gas royalty trusts and power generation sectors. The Fund's portfolio mix was designed to comply with SR-1 stability rating requirements. As a result of the Fund's mandatory underweight position in the strong performing energy sector and the Fund's market price declining from a 2.3% premium in 2004 to a 5.7% discount to net asset value in 2005, the Fund's performance trailed the Index.



TRADING PREMIUM / DISCOUNT TO NET ASSET VALUE

Series S-1's unit price traded at an average discount to net asset value of 4.7% in 2005 compared to an average discount to net asset value of 1.0% in 2004. During 2005, the Fund was required to repurchase 907,900 units for cancellation under its mandatory repurchase program at an average cost of \$10.31 per unit (2004 - 147,000 units at an average cost of \$9.62 per unit). Under its mandatory repurchase program, Series S-1 is obligated to repurchase units offered for sale at a discount to net asset value of greater than 5%.



STABILITY RATING

Standard & Poor provides a rating scale to assist investors in understanding the risk profile of an investment in an income fund. Standard and Poor's Stability Ratings characterize the stability of the cash distribution stream of and income fund in terms of variability and sustainability in the medium to longer term. The rating continuum ranges from SR-1 at the most stable to SR-7 for the least stable. During 2005, the Fund maintained its SR-1 stability rating and expects to maintain its rating again in 2006.

RECENT DEVELOPMENTS

The current combination of a strong Canadian economy, low inflation, high commodity prices and relatively low interest rates provide a favorable environment and provide a positive outlook for the income trust sector. With its SR-1 stability rated portfolio, Series S-1 expects to maintain its monthly distribution rate of \$0.075 per unit for 2006 based upon the Fund's current portfolio and analysts' estimates of distributions.

FORWARD LOOKING STATEMENTS

This document contains certain forward looking statements that involve substantial known and unknown risks and uncertainties, some of which are beyond our control, including the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations, including the Canadian Income Tax Act, fluctuations in interest rates, commodity prices and foreign exchange, stock market volatility, and market valuations of income and royalty trusts. Our actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of these events anticipated by the forward looking statements will transpire or occur, or if any of them do, what benefits, including the amount of proceeds, that we will derive therefrom.

RELATED PARTY TRANSACTIONS

Citadel Series Management Ltd. is the administrator of Series S-1, which is a member of the Citadel Group of Funds. CIPSG Funds Inc. provides administrative services to the administrators of the Citadel Group of Funds on a cost recovery basis. All non-fund specific costs are allocated among the Citadel Group of Funds on a relative net asset value basis.

Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. The administrator is also reimbursed for all general and administrative expenses that relate to the operation of the Fund.

FINANCIAL HIGHLIGHTS

The following tables show selected key financial information about the Fund and are intended to help the reader understand the Fund's financial performance for the past 3 years. This information is derived from the Fund's audited annual financial statements.

Net Asset Value per Unit

	2005	2004	2003 ⁽¹⁾
NAV, beginning of year	\$ 11.14	\$ 10.57	\$ 9.45
Increase (decrease) from operations:			
Total revenue	0.95	0.93	0.54
Total expenses	(0.19)	(0.18)	(0.09)
Realized gains (losses)	0.28	0.22	0.02
Unrealized gains (losses)	(0.13)	0.51	1.04
Total increase (decrease) from operations	0.91	1.48	1.51
Distributions:			
From net investment income	0.88	0.87	0.38
From capital gains	0.02	0.03	–
Total annual distributions	0.90	0.90	0.38
NAV, end of year	\$ 11.17	\$ 11.14	\$ 10.57

⁽¹⁾ The Fund commenced operations on June 12, 2003.

Net asset value ("NAV") and cash distributions are based on the actual number of units outstanding at the time. The increase (decrease) from operations is based on the weighted average number of units outstanding over the financial period. This schedule is not a reconciliation of NAV since it does not reflect unitholder transactions as shown on the Statement of Changes in Net Assets and accordingly columns may not add.

Ratios and Supplemental Data

	2005	2004	2003
Net assets (\$000's)	\$ 386,544	\$ 389,920	\$ 365,723
Number of units outstanding	34,619,699	34,990,842	34,609,751
Management expense ratio	1.74%	1.75%	1.64%
Portfolio turnover ratio	22.11%	10.68%	6.57%
Trading expense ratio	0.09%	0.03%	0.08%
Closing market price	\$ 10.53	\$ 11.40	\$ 10.65

Management expense ratio is based on total expenses for the period and is expressed as an annualized percentage of weekly average net assets during the period.

Portfolio turnover ratio is based on the lesser of cost of purchases or proceeds of disposition and is expressed as a percentage of the monthly average portfolio value.

Trading expense ratio represents total commissions expressed as an annualized percentage of weekly average net assets during the period.

MANAGEMENT FEES

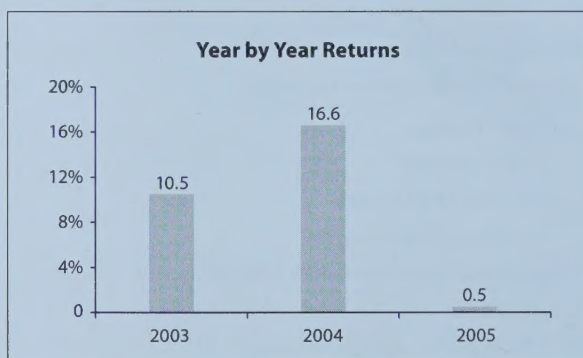
Pursuant to the administrative services agreement, administrative and investment management fees are based upon 1.1% of the average weekly net asset value of the Fund, payable in units monthly in arrears. Bloom Investment Counsel, Inc., as investment manager to the Fund, provides investment management services to the Fund in exchange for its share of the management fee. These fees represent payment for the administrative and investment management services provided to the Fund.

PAST PERFORMANCE

Series S-1's performance numbers from inception in June 2003 to December 31, 2005 are based upon the Fund's change in market price plus the reinvestment of all distributions in additional units of the Fund. The Fund's historical performance does not necessarily indicate how it will perform in the future.

ANNUAL COMPOUND RETURNS

In the table below are the annual compound returns for the periods ended December 31, 2005 for Series S-1 based on market price and net asset value with comparison to the S&P/TSX Capped Income Trust Index.



	1 Year	Since inception
Series S-1 (market price)	0.5%	10.7%
Series S-1 (net asset value)	9.1%	15.8%
S&P/TSX Capped Income Trust Index	31.0%	32.3%

SUMMARY OF INVESTMENT PORTFOLIO

The Fund's portfolio as at December 31, 2005 and 2004 consisted of the following subgroups.

	2005	2004
Ongoing Business Trusts	31.0%	33.1%
Power Generation Investments	21.2%	18.8%
Oil & Gas Royalty Trusts	18.0%	12.0%
Pipeline / Energy Investments	14.8%	15.0%
Real Estate Investment Trusts	13.1%	12.8%
Series S-1 units (repurchased for cancellation)	0.1%	–
Cash and Term Deposits	1.8%	8.3%
Total Investments	100.0%	100.0%

The top 25 holdings as at December 31, 2005 based on market values.

TransAlta Power L.P.	4.8%	ARC Energy Trust	2.3%
Inter Pipeline Fund	4.4%	NAL Oil & Gas Trust	2.2%
Noranda Income Fund	4.3%	CML Healthcare Income Fund	2.2%
Yellow Pages Income Fund	4.2%	Acclaim Energy Trust	2.2%
Keyera Facilities Income Fund	3.8%	Student Transport of America	2.2%
Superior Plus Income Fund	3.4%	Viking Energy Royalty Trust	2.1%
Dundee Reit	3.4%	Baytex Energy Trust	2.1%
Algonquin Power Income Fund	3.3%	Countryside Power Income Fund	2.1%
Retirement Residences Reit	3.2%	Atlantic Power Corporation	2.0%
Fort Chicago Energy Partners L.P.	3.1%	Enerplus Resources Fund	2.0%
Boralex Power Income Fund	2.9%	InnVest Reit	1.9%
Royal LePage Franchise Facilities Fund	2.6%	Esprit Energy Trust	1.8%
Consumers' Water Heater Income Fund	2.4%	% of Total Portfolio	71.0%

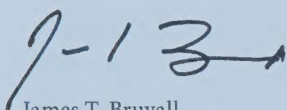
Management's Responsibility Statement

The financial statements of Series S-1 Income Fund have been prepared by Citadel Series Management Ltd. ("SML") and approved by the Board of Directors of SML. SML is responsible for the information and representations contained in these financial statements and the other sections of the annual report.

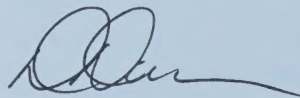
SML maintains appropriate procedures to ensure that relevant and reliable financial information is produced. These statements have been prepared in accordance with accounting principles generally accepted in Canada and include certain amounts that are based on estimates and judgments. The significant accounting policies applicable to the Fund are described in Note 2 to the financial statements.

The Board of Directors of SML is responsible for ensuring that management fulfills its responsibilities for financial reporting and has reviewed and approved these financial statements. The Board carries out this responsibility through the Audit Committee, which is comprised of the independent directors of the Board.

The Audit Committee on behalf of SML and its Board of Directors has appointed the external audit firm of PricewaterhouseCoopers LLP. They have audited the financial statements in accordance with Canadian generally accepted auditing standards to enable them to express to unitholders their opinion on the financial statements. The auditors have full and unrestricted access to the Audit Committee to discuss their findings.



James T. Bruvall
Chief Executive Officer
Citadel TEF Management Ltd.
April 6, 2006



Darren K. Duncan
Chief Financial Officer
Citadel TEF Management Ltd.

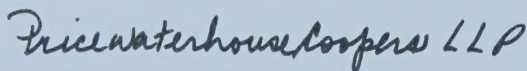
Auditors' Report to Unitholders

To the Unitholders of Series S-1 Income Fund

We have audited the statements of net assets and investments of Series S-1 Income Fund as at December 31, 2005 and 2004, and the statements of operations and changes in net assets for the years ended December 31, 2005 and 2004. These financial statements are the responsibility of management of the Fund's Administrator. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the net assets and investments of the Fund as at December 31, 2005 and 2004 and the results of its operations and the changes in its net assets for the years ended December 31, 2005 and 2004 in accordance with Canadian generally accepted accounting principles.



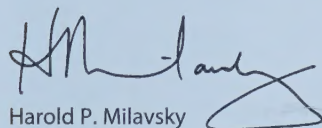
Chartered Accountants
Calgary, Alberta
March 10, 2006

Statement of Net Assets

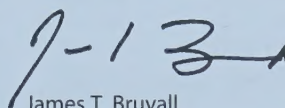
As at December 31,	2005	2004
Assets		
Investments, at market	\$ 379,494,727	\$ 358,142,987
Cash and term deposits	6,950,563	32,257,232
Revenue receivable	2,912,260	2,400,601
Accounts receivable	175,944	98,653
Prepaid expenses	29,904	29,998
	389,563,398	392,929,471
Liabilities		
Accounts payable and accrued liabilities	380,817	384,898
Payable for investments purchased	42,221	—
Distributions payable	2,596,477	2,624,313
	3,019,515	3,009,211
Net Assets representing Unitholders' Equity	\$ 386,543,883	\$ 389,920,260
Units outstanding (note 3)	34,619,699	34,990,842
Net asset value per unit	\$11.17	\$ 11.14

see accompanying notes

Signed on behalf of the Board,



Harold P. Milavsky
Chairman of the Board



James T. Bruvall
Director and Chief Executive Officer

Statement of Operations

Years Ended December 31,	2005	2004
Revenue		
Distribution income	\$ 32,586,867	\$ 31,571,178
Interest income	736,126	901,419
	33,322,993	32,472,597
Expenses		
Administrative and investment manager fees (note 4)	4,588,173	4,296,551
Trailer fee (note 5)	1,570,474	1,462,964
General and administration costs	346,847	327,433
Directors' fees	83,125	79,935
Reporting costs	67,879	142,752
Custodial fees	35,643	61,625
Trustee fees	20,302	19,395
Audit fees	23,906	17,702
Legal fees	7,582	14,788
	6,743,931	6,423,145
Net investment income	26,579,062	26,049,452
Net realized gain on sale of investments (note 6)	9,658,478	7,802,185
Net change in unrealized gain (loss) on investments	(4,622,625)	17,624,413
Total results of operations	\$ 31,614,915	\$ 51,476,050
Results of operations per unit ⁽¹⁾		
Net investment income	\$ 0.76	\$ 0.75
Net realized gain on sale of investments	0.28	0.22
Net change in unrealized gain (loss) on investments	(0.13)	0.51
	\$ 0.91	\$ 1.48

⁽¹⁾ Based on the weighted average number of units outstanding.

see accompanying notes

Statement of Changes in Net Assets

Years Ended December 31,	2005	2004
Net Assets – beginning of year	\$ 389,920,260	\$ 365,722,905
Operations:		
Net investment income	26,579,062	26,049,452
Net realized gain on sale of investments	9,658,478	7,802,185
Net change in unrealized gain (loss) on investments	(4,622,625)	17,624,413
	31,614,915	51,476,050
Unitholder Transactions:		
Issuance of trust units, net	5,788,666	5,453,087
Repurchase of trust units	(9,364,358)	(1,414,703)
	(3,575,692)	4,038,384
Distributions to Unitholders: (note 7)		
From net investment income	(30,929,561)	(30,127,419)
From capital gains	(486,039)	(1,189,660)
	(31,415,600)	(31,317,079)
Net Assets – end of year	\$ 386,543,883	\$ 389,920,260
Distributions per unit	\$ 0.90	\$ 0.90

see accompanying notes

Statement of Investments

	December 31, 2005				December 31, 2004			
	Number of Units Held	Cost	Market Value	% of Market	Number of Units Held	Cost	Market Value	% of Market
Ongoing Business Trusts								
ACS Media Income Fund	680,000	\$ 6,391,700	\$ 6,086,000		500,000	\$ 4,755,000	\$ 4,700,000	
Amtelecom Income Fund	475,000	5,249,225	6,151,250		475,000	5,249,225	6,393,500	
Arctic Glacier Income Fund	590,000	5,718,069	6,372,000		590,000	5,718,069	7,080,000	
Bell Nordiq Income Fund	168,268	2,137,105	2,995,170		168,268	2,137,105	2,730,990	
CML Healthcare Income Fund	600,000	6,784,000	8,640,000		500,000	5,363,500	6,675,000	
Chemtrade Logistics Income Fund	496,100	7,491,715	5,303,309		506,800	7,653,298	10,288,040	
Clearwater Seafoods Income Fund	600,000	7,461,912	2,250,000		600,000	7,461,912	5,268,000	
Consumers' Water Heater Income Fund	600,000	7,892,866	9,390,000		400,000	4,763,075	6,100,000	
Custom Direct Income Fund	700,000	7,000,000	6,895,000		700,000	7,000,000	8,050,000	
KCP Income Fund	600,000	7,128,183	5,520,000		400,000	5,037,748	4,536,000	
Noranda Income Fund	1,400,000	13,964,709	16,730,000		1,270,000	12,560,209	15,938,500	
Rogers Sugar Income Fund	1,400,000	5,799,821	5,180,000		1,400,000	5,799,821	6,300,000	
Royal LePage Franchise Facilities Fund	755,000	7,550,000	9,890,500		755,000	7,550,000	8,720,250	
SFK Pulp Fund	—	—	—		800,000	6,320,945	5,800,000	
Specialty Foods Group Income Group	—	—	—		500,000	5,030,513	2,250,000	
Student Transport of America Ltd.	650,000	7,007,000	8,366,482		—	—	—	
Sun Gro Horticulture Income Fund	600,000	4,846,342	4,050,000		600,000	4,846,342	4,890,000	
TransForce Income Fund	—	—	—		570,000	4,494,057	8,681,100	
UE Waterheater Income Fund	—	—	—		458,200	4,582,000	6,025,330	
Yellow Pages Income Fund	1,000,000	11,511,310	16,300,000		652,000	6,520,000	8,795,480	
		113,933,957	120,119,711	31.0%		112,842,819	129,222,190	33.1%
Power Generation Investments								
Algonquin Power Income Fund	1,234,723	11,807,752	12,902,855		1,234,723	11,807,752	13,112,758	
Atlantic Power Corporation	750,000	7,611,387	7,800,000		—	—	—	
Boralex Power Income Fund	1,100,000	11,260,019	11,022,000		816,500	8,349,789	9,242,780	
Calpine Power Income Fund	—	—	—		584,000	6,115,250	6,593,360	
Clean Power Income Fund	1,217,700	12,211,387	5,418,765		1,400,000	14,039,535	9,716,000	
Countryside Power Income Fund	900,000	8,702,848	7,947,000		—	—	—	
Epcor Power L.P.	170,000	5,742,940	5,992,500		—	—	—	
Innergex Power Income Fund	435,000	4,505,494	5,742,000		700,000	7,250,220	9,240,000	
Northland Power Income Fund	425,000	4,871,328	6,336,750		425,000	4,871,328	6,009,500	
TransAlta Power L.P.	1,902,100	17,426,317	18,640,580		1,902,100	17,426,317	19,477,504	
		84,139,472	81,802,450	21.2%		69,860,191	73,391,902	18.8%
Oil & Gas Royalty Trusts								
Acclaim Energy Trust	450,000	5,025,884	8,527,500		639,522	7,142,586	9,209,117	
ARC Energy Trust	340,000	4,275,249	9,006,600		970,000	12,197,033	17,363,000	
Baytex Energy Trust	450,000	5,950,439	7,965,000		—	—	—	
Enerplus Resources Fund	135,000	4,161,249	7,541,100		175,000	5,394,212	7,630,000	
Esprit Energy Trust	520,000	5,969,600	6,999,200		—	—	—	
NAL Oil & Gas Trust	480,000	6,512,100	8,678,400		—	—	—	
Paramount Energy Trust	275,000	3,520,275	6,096,750		404,900	5,000,515	6,454,106	
Petrofund Energy Trust	325,000	3,826,909	6,659,250		393,954	4,638,849	6,149,622	
Viking Energy Royalty Trust	900,000	6,318,630	8,280,000		—	—	—	
		45,560,335	69,753,800	18.0%		34,373,195	46,805,845	12.0%
Pipeline/Energy Investments								
AltaGas Income Trust	—	—	—		282,800	5,754,980	6,546,820	
Fort Chicago Energy Partners L.P.	1,000,000	11,922,657	11,990,000		—	—	—	
Heating Oil Partners Income Fund	—	—	—		535,000	6,704,085	3,825,250	
Inter Pipeline Fund	1,709,860	11,046,292	17,184,093		1,654,860	10,522,192	15,158,517	
Keyera Facilities Income Fund	679,100	7,618,728	14,770,425		639,100	6,983,448	9,196,649	
Superior Plus Income Fund	560,000	11,864,535	13,160,000		560,000	11,864,535	16,811,200	
Taylor NGL L.P.	—	—	—		846,200	5,584,920	7,133,466	
		42,452,212	57,104,518	14.8%		47,414,160	58,671,902	15.0%
Real Estate Investment Trusts								
Borealis Retail Reit	—	—	—		700,000	7,000,000	9,366,000	
Dundee Reit	507,400	10,851,659	13,040,180		400,000	8,126,642	10,240,000	
Firm Capital Mortgage Investment Trust	460,020	4,895,558	4,959,016		460,020	4,895,558	5,239,628	
H&R Reit	300,000	6,219,600	6,240,000		—	—	—	
InnVest Reit	585,800	5,264,206	7,345,932		585,800	5,264,206	6,971,020	
O & Y Reit	—	—	—		450,000	4,877,617	6,345,000	
Retirement Residences Reit	1,400,000	13,459,164	12,250,000		465,000	4,799,089	4,789,500	
Riocan Reit	300,000	4,171,632	6,837,000		400,000	5,562,176	7,100,000	
		44,861,819	50,672,128	13.1%		40,525,288	50,051,148	12.8%

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Series S-1 - repurchased units to be cancelled	4,000	42,224	42,120	0.1%	—	—	—	—
Investments		330,990,019	379,494,727	98.2%	305,015,653	358,142,987	91.7%	
Cash and Term Deposits		6,950,563	6,950,563	1.8%	32,257,232	32,257,232	8.3%	
Total		\$ 337,940,582	\$ 386,445,290	100.0%	\$ 337,272,885	\$ 390,400,219	100.0%	

All portfolio holdings are trust units, except the following: Student Transport of America Ltd. and Atlantic Power Corporation – income participating securities; Epcor Power L.P., TransAlta Power L.P. and Taylor NGL L.P. – LP units; Fort Chicago Energy Partners L.P. and Inter Pipeline Fund – Class A LP units.

Notes to Financial Statements

December 3001, 2005 and 2004

1. STRUCTURE OF THE FUND

Series S-1 Income Fund (the “Fund” or “Series S-1”) is a closed-end investment trust established under the laws of Alberta pursuant to a Declaration of Trust dated as of April 17, 2003 and amended June 12, 2003. The Fund commenced operations upon completion of its initial public offering on June 12, 2003. The term of the Fund continues until December 31, 2009 in accordance with the provisions of the Fund’s Declaration of Trust.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements, prepared in accordance with Canadian generally accepted accounting principles, include estimates and assumptions by management that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the period. Actual results may differ from these estimates. The following is a summary of the significant accounting policies.

(a) Cash and cash equivalents

Cash consists of cash on hand and short term bankers’ acceptances with maturities of less than 90 days on acquisition.

(b) Valuation of investments

Investments are stated at market values based on closing market quotations. Average cost is used to compute realized and unrealized gains or losses on investments. Investment transactions are recorded on the trade date.

(c) Canadian income taxes

The Fund qualified as a unit trust within the meaning of the Income Tax Act (Canada). Provided the Fund distributes to its unitholders its net income for tax purposes, the Fund will not generally be liable for income tax under Part 1 of the Income Tax Act (Canada). As all taxable income was allocated to the unitholders in 2005 and 2004, no provision for income taxes has been made in these financial statements.

(d) Investment income

Dividend income is recorded on the ex-dividend date, interest is recognized as earned and distribution income is recognized on the ex-distribution date. Capital gains and losses are recognized on the trade date.

(e) Financial instruments

The fair values of the Fund’s financial instruments which are comprised of cash and term deposits, revenue receivable, accounts receivable, prepaid expenses, accounts payable and accrued liabilities and distributions payable approximate their carrying amount due to the short-term maturity of these instruments.

3. UNITHOLDERS' CONTRIBUTION

Authorized

The authorized capital of the Fund consists of an unlimited number of trust units which are transferable non-redeemable units of beneficial interest.

Issued and outstanding	2005		2004	
	Number	Amount	Number	Amount
Trust units – beginning of year	34,990,842	\$ 331,183,159	34,609,751	\$ 327,144,774
Issued for services (note 4)	406,613	4,350,499	396,877	4,077,967
Issued under DRIP	130,144	1,438,167	131,214	1,375,121
Repurchase of trust units	(907,900)	(9,364,358)	(147,000)	(1,414,703)
Trust units – end of year	34,619,699	\$ 327,607,467	34,990,842	\$ 331,183,159

The weighted average number of units outstanding in 2005 was 34,935,216 (2004 – 34,766,541 units).

The Fund has a mandatory repurchase program whereby units offered for sale at a discount to the Fund's net asset value per unit of greater than 5% are repurchased for cancellation, subject to a maximum of 1.25% in each calendar quarter of the total number of units outstanding at the beginning of each such quarter. During 2005, Series repurchased 907,900 trust units under this program at an average cost of \$10.31 per unit (2004 – 147,000 units at an average cost of \$9.62 per unit).

Unitholders of Series S-1 can acquire additional units by participating in the Distribution Reinvestment Plan ("DRIP"). The DRIP enables unitholders to reinvest their monthly distributions in additional units of Series S-1 at the 5 day weighted average market price of the Fund's units. In 2005, 130,144 units (2004 – 131,214 units) were issued under the DRIP.

4. ADMINISTRATIVE AND INVESTMENT MANAGER FEES/DIRECTORS' FEES

Citadel Series Management Ltd. ("SML") is the administrator of the Fund and Bloom Investment Counsel, Inc. is the investment manager of the Fund. Pursuant to the administrative services and investment management agreements, aggregate administrative and investment management fees are based upon 1.1% of the aggregate of the average weekly net asset value of the Fund, payable in units monthly in arrears. During 2005, the Fund issued 400,896 trust units and recorded an expense of \$4,588,173 in respect of the administrative and investment management fees during the period (2004 - 390,564 units and an expense of \$4,296,551). The administrative services agreement also provides for the reimbursement of certain expenses incurred by the administrator during the performance of its duties. As at December 31, 2005, included in accounts receivable were amounts owed from SML of \$175,944 (2004 - \$98,653).

Directors of SML received a total of 5,717 units in 2005 (2004 – 6,313 units) as payment for their annual retainers.

5. TRAILER FEE

Series S-1 pays a trailer fee to investment dealers calculated and payable quarterly in arrears at an annual rate of 0.40% of the net asset value of the Fund held by unitholders in accounts with investment dealers. During 2005, the Fund recorded an expense of \$1,570,474 (2004 - \$1,462,964) relating to the trailer fee.

6. INVESTMENTS

The net realized gain on the sale of investments was determined as follows:

	2005	2004
Net proceeds from the sale of securities	\$ 86,571,410	\$ 39,367,480
Less cost of securities sold:		
Investments at cost – beginning of year	305,015,653	293,452,436
Investments purchased during year	102,887,298	43,128,512
Investments at cost – end of year	(330,990,019)	(305,015,653)
Cost of investments disposed of during year	76,912,932	31,565,295
Net realized gain on sale of investments	\$ 9,658,478	\$ 7,802,185

7. CASH DISTRIBUTIONS

The Fund pays out monthly cash distributions targeted at \$0.375 per unit based upon investment income received by the Fund less estimated expenses. In 2005 and 2004, the Fund also distributed a portion of its realized gains in order to supplement its distributions.

	2005	2004
Net investment income for the year	\$ 26,579,062	\$ 26,049,452
Add fees paid by issuance of units	4,350,499	4,077,967
Capital distributed	486,039	1,189,660
Cash distributions	\$ 31,415,600	\$ 31,317,079
Cash distributions per unit	\$ 0.90	\$ 0.90

8. BROKER COMMISSIONS

The Fund paid commissions to brokers of \$337,698 in 2005 (2004 – \$122,067) in relation to the purchase and sale of investments.

9. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

Corporate Information

Administrators

Citadel Diversified Management Ltd.
Citadel S1 Management Ltd.
Citadel TEF Management Ltd.
Citadel CPRT Management Ltd.
MYDAS Management Inc.
Citadel Multi-Sector Management Inc.
Citadel Series Management Ltd.
Citadel IG Management Ltd.
Equity Lift Management Ltd.
N.A. Energy Management Inc.
Stable Yield Management Inc.
Sustainable PE Management Inc.
Equal Weight Management Ltd.
Suite 3500, 350 - 7th Avenue S.W.
Calgary, Alberta T2P 3N9
Telephone: (403) 261-9674
Toll Free: 1 877 261-9674
Fax: (403) 261-8670
Website: www.citadelfunds.com
Email: info@citadelfunds.com

Directors and Officers

Harold P. Milavsky - Chairman of the Board
Paul L. Waitzer - Director
Doug D. Baldwin - Director
Kent J. MacIntyre - Director
James T. Bruvall - Director and Chief Executive Officer
Darren K. Duncan - Chief Financial Officer

Investment Manager

(CTD.un, SDL.un, CHF.un, CRT.un, MYF.un,
CMS.un, SRC.un, CIF.un and CSR.un)
Bloom Investment Counsel, Inc.
Suite 1710, 150 York Street
Toronto, Ontario M5H 3S5

Investment Manager

(EPF.un and SPU.un)
Galileo Equity Management Inc.
161 Bay Street, Suite 4730
Toronto, Ontario M5J 2S1

Rebalancing Advisor

(IEP.un and EQW.un)
Shaunessy Investment Counsel
Suite 504, 933-17th Avenue S.W.
Calgary, Alberta T2T 5R6

Trustee

Computershare Trust Company of Canada
Sixth Floor
530 - 8th Avenue S.W.
Calgary, Alberta T2P 3S8

Custodian

CIBC Mellon Global Securities Services Company
320 Bay Street, 6th Floor
Toronto, Ontario M5H 4A6

Legal Counsel

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4300 Bankers Hall West
888 - 3rd Street S.W.
Calgary, Alberta T2P 5C5

Auditors

PricewaterhouseCoopers LLP
3100, 111 - 5th Avenue S.W.
Calgary, Alberta T2P 5L3

Stock Exchange Listings

The Toronto Stock Exchange
Citadel Diversified Investment Trust units: **CTD.un**
Citadel S-1 Income Trust Fund units: **SDL.un**
Citadel HYTES Fund units: **CHF.un**
Citadel SMaRT Fund units: **CRT.un**
MYDAS Fund units: **MYF.un**
Citadel Multi-Sector Income Fund units: **CMS.un**
Series S-1 Income Fund units: **SRC.un**
Citadel Income & Growth Fund units: **CIF.un**
Income & Equity Index Participation Fund units: **IEP.un**
Energy Plus Income Trust units: **EPF.un**
Citadel Stable S-1 Income Fund units: **CSR.un**
Sustainable Production Energy Trust units: **SPU.un**
Equal Weight Plus Fund units: **EQW.un**



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